Walker, Francis Amasa

International bimetallism: a rejoinder

[New Haven]

[1896?]

98-84379-8

MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

[Walker, Francis Amasa] 1840-1897.
International bimetallism: a rejoinder ...
~~[1896?]~~ [New Haven, Yale Review, 1896?]
[303]-315 p. 23cm.

Signed: Francis A. Walker.
From Yale review, Nov. 1896.
Includes "An explanation", signed, Henry W. Farnam (p. 312-315)
Volume of pamphlets.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 4-1-98 INITIALS: PB

TRACKING # : 32273

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Walker, Francis Amasa

International bimetallism: a rejoinder

Bibliographic Irregularities in the Original Document:

List all volumes and pages affected; include name of institution if filming borrowed text.

X Page(s) missing/not available: cover

____ Volume(s) missing/not available:

____ Illegible and/or damaged page(s):

____ Page(s) or volume(s) misnumbered:

____ Bound out of sequence:

____ Page(s) or volume(s) filmed from copy borrowed from:

____ Other:

____ Inserted material:

TRACKING#: MSH32273

INTERNATIONAL BIMETALLISM: A REJOINDER.

I AM deeply sensible of Prof. Farnam's courtesy and considerateness in dealing with my work on "International Bimetallism" in the YALE REVIEW for August;* but there are two or three points regarding which I ought to speak.

The first relates to Prof. Farnam's interpretation of two sentences having reference to the effect of demonetization on prices. These sentences are as follows: "A number of nations have largely diminished, relatively, their use of silver; and have largely increased, both relatively and absolutely, their use of gold. This must have had an effect to lower prices, expressed in terms of gold." Upon this Prof. Farnam remarks: "The word 'use' is, to be sure, a little ambiguous. We do not know whether it means the quantity used or the quantity wanted, but we assume that it means the quantity used, since the statement would in that case agree with the facts of our own country. Now, if General Walker claims that to increase the quantity of gold in circulation must have the effect of lowering the prices in terms of gold, he is going directly counter to the quantity-theory of money which he has often and so ably expounded. According to that theory, an increase in the amount of gold in circulation would, other things being equal, tend to raise gold prices."

If my language is naturally to be understood in this sense, it certainly becomes me to apologize for clumsiness of expression. That the sentences quoted could possibly be taken as relating to the supply of the precious metals, never occurred to me until I read Prof. Farnam's comment. Let me state, familiarly, a parallel case. Jones asks Brown why the price of horses has fallen so greatly within the past few years. Brown replies that, as he conceives it, the result is mainly due to the fact that vast numbers of people have given up riding horses and have taken to bicycles. In this answer, Brown would not be understood as referring at all

* See YALE REVIEW, Vol. v, p. 182.

to the supply of horses but only as speaking of the use of bicycles as affecting the demand for horses. Brown either assumes that the supply of horses remains unchanged, or, with equal propriety, he chooses to disregard the supply altogether and to confine Jones' attention and his own, for the moment, to the great and conspicuous change in demand. So, in the two sentences quoted by Prof. Farnam, I said, in effect, that many nations had given up silver, as their principal money, and taken to gold. What I meant was that the world *uses gold more:* Prof. Farnam has understood me to mean that the world *uses more gold.* I apprehend that the two things are distinct; but in any case what I had in mind was merely the admitted increase in the demand for gold; not any change in the supply.

2d. I am surprised to note that Prof. Farnam gives some countenance to the notion that the whole, or substantially the whole fall in prices, by which 59.2 grains of gold would, in June of this year, purchase the same amount through a very large range of commodities, as one hundred grains of gold would have done in 1873, has been due, not to the relative scarcity of that metal but to the increase in the quantity of goods offered for gold. That a reduction in the cost of producing many articles has caused some part of the fall in their prices every fair-minded man must concede; but that it has produced the whole of that fall appears to me monstrous. Lord Iddesleigh's Commission of 1885 declared that there had been a continuous fall of prices, caused in a large measure by the appreciation of the standard of value. When the Herschell Commission reported two years later it was expected that the bimetallists of that commission would take a strong view of the effects of demonetization upon prices; but even the gold monometallists, in their separate report, admitted that no inconsiderable part of the fall in prices had been due to the appreciation of gold, though they added, "We think the sounder view is that the greater part of the fall has resulted from causes touching the commodities rather than from an appreciation of the standard." Mr. Goschen, than whom there is no man more competent to speak, has repeatedly put himself on record as attributing

the fall of prices predominantly to the appreciation of gold. Finally, not to occupy too much of your valuable space, let me quote Sir Robert Giffen, perhaps the ablest purely commercial statistician of the world and one of the pillars of English monometallism: "Two causes only have been suggested. One is a greater multiplication of commodities and diminution of the cost of production, due to the progress of invention, improved facilities of communication, lower freights, international telegraphy, and the like circumstances. The other is that the precious metal used for standard money, namely, gold, has become relatively scarcer than it was, its production being diminished on the one hand and the demands for it on the other increased. *I am disposed to give greater weight to the latter.*" Again, speaking of the depression of trade, he says: "It is largely due to some permanent cause which has lately begun to operate, *to which trade was not subject for many years after 1850*, and which is now in full operation, and which has for its effect to prevent a rise of prices in good years to what was long considered the customary maximum, and to precipitate a fall in bad years to a point much below the customary minimum."

It may be urged that these were the opinions of Sir Robert Giffen eight years ago; and that further observation of the downward course of prices and further discussion of the subject may have changed the views even of so careful and thoughtful a writer as he. Let me, therefore, quote from his testimony before the Commission on Depression in Agriculture in 1894: "The fall of prices is attributable to the contraction of gold very largely." (18,485.) Ques. "To what do you attribute the fall in agricultural prices?" Ans. "Chiefly to the same causes that have produced the fall in general prices." (No. 18,565.) Ques. "What would they be?" Ans. "The contraction of money relatively to what went before. That is the difference between the last twenty years and the twenty years before." (No. 18,566.) Ques. "You still, I gather from your evidence to-day, quite adhere to the opinions which you have very emphatically stated in this 'Essay on the Movement of Prices and Wages,' that the 'recent change from a high to a

low level of prices is due to a change in money of the nature or in the direction of absolute contraction;' and again, 'the inference seems conclusive, therefore, that after 1873 the alteration in the economic movement was in money, and to this must be ascribed the change of prices which has occurred?'" Ans. "I think that is a fair statement of what happened after 1873." (No. 18,621.)

I desire to repeat what was said in my book, that much of what has been adduced by Mr. Wells as establishing a saving in the cost of production which accounts for the fall of prices since 1873, has no relevancy whatever, because it is not shown to affect the production of that last considerable portion of the supply which, as every well-trained economist knows, determines the price of commodities. All the improvements and inventions in the world, no matter how great, will not reduce the price of any line of commodities merely by being applied, no matter how extensively, to production by the more favored producers. If a steam threshing-machine would thresh, sack and tie a thousand bushels a second, however much it might enhance the profits of the men who employ steam threshers on their farms, there would not be the slightest influence exerted upon the price of wheat until the machines began to reduce the cost of production on the poorest or most distant lands contributing to the supply of the market. The failure to understand the economic doctrine of rent has, on more than one occasion, rendered futile Mr. Wells' very remarkable natural powers of industrial investigation, and has led him into statements equally erroneous with those he has made regarding the recent fall of prices, as, for instance, in his work as Chairman of the Commission for Revising the Tax Laws of New York (1871–2), where this ignorance of the economic law of rent and the causes controlling prices led him, after two years of official inquiry, to take the astounding position[1] that taxes levied upon agricultural land within a jurisdiction of no wider extent than that of the State of New York, would so far be recompensed by a rise in the value of the products, that the farmers would, in the final result, pay no more than their equitable share of the public contribution? On the contrary, everybody knows that the cost of raising the principal crops of New York in 1871 and 1872, or during any year near those dates, whether before or after, had absolutely nothing whatever to do with the prices of those products. Prices were then fixed by the cost of raising crops on fields far distant from the jurisdiction of that state. In this immediate connection, Mr. Wells committed himself to the general proposition "that all taxes equate and diffuse themselves, and that, if levied with certainty and uniformity upon tangible property and fixed signs of property, they will, by a diffusion and repercussion, reach and burden all visible, and also invisible and intangible property, with unerring certainty and equality." This theory of the infallibly perfect diffusion of the burdens of taxation is made the basis of the Commission's recommendations. That statement is repeated over and over again in the two reports of the Commission (1871 and 1872); in the abstract of the proposed system presented by Mr. Wells to the Chairman of the Ways and Means Committee of the House of Representatives, at Washington, in 1873; and in Mr. Wells' paper read before the American Social Science Association in 1874; and yet, if there is any one thing upon which all sound thinkers are agreed,—it is that the burdens of taxation are propagated along the lines of "least resistance." No one has greater admiration than myself for Mr. Wells' ability. It is the lack of early systematic training in economics which has permitted him to fall into errors like those on which I have just now commented and has led him to make other wild and mischievous statements regarding

[1] The Commission proposed to give up the effort to tax personal property in general, and confine taxation to real estate, to "building occupancy" and to moneyed corporations. They recognized the fact that taxation necessarily increases the cost of production to the farmers. ["If laid upon the land, it will constitute an element in the cost of that which the land produces"]; but they held that here as everywhere else, the automatic, insensible action of "diffusion and repercussion" would enable those on whom the burden should first be laid to raise the price of their products (or, in the case of railroads and the owners of buildings, to raise their freights and their rents,) in such a degree as to cause an equitable distribution throughout the community.

the currency, such as the following: "Were all the currency in the country absolutely swept out of existence to-morrow morning, there would doubtless be much inconvenience experienced, the same as though all the yard-sticks, foot-rules and bushel-measures were to disappear, but in either case, there would probably not be one less acre of land cultivated, yard of cloth made, ton of coal dug, or pound of iron smelted, in consequence"; or, again, that "a three-cent piece, if it could be divided into a sufficient number of pieces, with each piece capable of being handled, would undoubtedly suffice for doing all the business of the country, if no other instrumentality were available." Certainly it would be difficult to find two statements containing an equal degree of dangerous error. The annihilation of currency of a country would produce the most awful commercial and industrial crisis to be conceived of, followed by a wreckage and prostration of industry from which it would take years to recover. We all remember what were the effects, in 1893, of the withdrawal of a comparatively small amount of circulating notes. As to Mr. Wells' "silver in a three-cent piece," it would be as rational to say that a cubic centimeter of air would suffice for all the lungs in the United States, provided it could be equally distributed among the several states, counties, municipalities and the inhabitants thereof.

3d. As to the matter of a ratio, Prof. Farnam speaks as if I had proposed that the ratio should not be discussed at all until an agreement had been positively reached among the nations to establish bimetallism on some ratio, and the nations concerned had bound themselves to accept the ratio which might then be hit upon. He says, "It is as if an engineer were to state that he could raise the water in a lake by the use of pumps, but were to absolutely refuse to state how high he would raise it, until he had received a contract to do his work."

I cannot imagine how my language should have produced this impression. Nothing was said about the nations first agreeing to establish a bimetallic system and binding themselves beforehand, blindfold, to adopt a ratio subsequently to be determined. My proposition was simply that, until the

nations whose coöperation is generally admitted to be essential to the successful establishment of bimetallism shall come to the conclusion that bimetallism is desirable, and so far desirable as to justify a distinct effort, we had better not enter upon the question of the ratio. The justification for this view is found in the consideration that the commercial and financial power of the countries entering into a bimetallic league would largely determine the expediency of taking one ratio, rather than another. For instance, some of the first gold monometallists of the world have admitted that, if England, the Latin Union, Germany and the United States were to form a league, a ratio of 15½ to 1 could be restored and maintained through any change of conditions which it is reasonable to anticipate. On the other hand, if the consenting States should not embrace England and Germany, not only the monometallists referred to but many bimetallists would admit that the ratio taken ought to be still more favorable to gold, say, 18 to 1 or 20 to 1. Is not this a good reason for postponing the discussion? To use Prof. Farnam's own illustration, would an hydraulic engineer be likely to spend a large sum of money in making specifications for a pumping system, were he told that the persons for whom he was to make them were entirely uncertain as to whether they wanted any pumping done, or not? But I am not ashamed of my other reason for postponing a discussion of the ratio, although it has been made the subject of very severe criticism. What was this dreadful thing which I said? It was that, inasmuch as the gold monometallists are anxious to draw the bimetallists into a discussion of the ratio for the purpose of dividing their councils and inducing international complications, I would, for this reason alone, refuse to discuss the ratio, not caring to do what mine enemy particularly desires. For example, the ratio of the Latin Union and some other countries is 15½ to 1; and at that ratio an enormous quantity of silver has been coined. The ratio of the United States is 16 to 1; and at that ratio an enormous body of silver has been coined. No intelligent and candid gold monometallist—and I cordially and gratefully recognize the candor and intelligence of some monometallist writers—will for a moment question

that, if the bimetallic scheme could be set up and maintained at 15½ to 1, it could be set up and maintained at 16 to 1. No one would claim that the economic difference between the two ratios is sufficient to make either inadmissible, provided successful bimetallism could be had at the other. Politically and diplomatically, however, there is a large difference between these ratios. To raise the issue between 15½ to 1 and 16 to 1, would necessarily be to arouse a great deal of national susceptibility and bring into the bimetallist councils an obstacle which does not belong to the present stage of discussion. If the time ever comes when France and the United States actually enter upon practical negotiations as to the reopening of their mints, then the question of 15½ to 1, or 16 to 1, or some other ratio, must be dealt with; but at present that question is premature, and the efforts made by monometallists to bring it to the fore have been invidious and hostile.

4. Professor Farnam appears to consider it a serious objection that my argument, as he regards it, practically stops short at 1878. He admits that, at the date named, bimetallism had very respectable arguments, both from reason and from experience, to support it; but he thinks that the course of events since that time has greatly changed the situation and that the changes thus wrought have been very slightly, if at all, considered by me. I shall have to take exception, at the outset, to the charge of having neglected the course of events or the course of discussion since 1878. Although my book goes back to Solomon, more than one-third of the whole is devoted to the period in question. This does not appear like neglect. I may, of course, have omitted to mention something that is of real consequence, or there may be disproportion in the treatment accorded to this or that argument. But, even if I were fairly subject to the imputation of having entirely neglected the course of events and the course of discussion since 1878, I should feel that the argument in favor of international bimetallism was still sufficient. In my humble judgment, nothing has occurred since 1878 to displace one stone from the essential structure of our argument. That argument was then complete, even to the point of anticipating the evasions, subterfuges and excuses to which the monometallists would resort when the course of events should in quick succession contradict every position they had taken regarding the effects of demonetization. As Prof. Foxwell well says, "If prevision is a test of science the bimetallist explanation easily holds its own."

Perhaps Prof. Farnam's remark was due to the fact that he had been contemplating the position of a man who had been a gold monometallist in 1878 and should undertake to write about the subject in 1896. In this case it *would* be true that a tremendous amount of re-arrangement and re-adjustment, of explanation and exculpation, of concession and confession would be imperative. Indeed and in truth the gold monometallist argument of 1896 bears little resemblance to that of 1878; while it is simply incredible that any educated economist should to-day assume the position taken by the monometallists in 1867. It would not be possible to gather together men of sufficient importance to be accredited by their governments as delegates to an international conference, who could, in this year of grace, commit themselves to propositions like those of the conference of the year last named; who would propose to make over the monetary system of the world for the sake of an impracticable crotchet now virtually abandoned; to uproot silver from vast regions where it had been universally in use as money; and to institute gold monometallism without even so much as inquiring whether the stock of that metal would suffice for the needs of commerce!

But, without going back further than 1878, it is true that the gold monometallist argument has been completely riddled as the result of the course of events and the course of discussion. The reports of the British commissions of 1885, 1886–7, 1894–5, exhibit the special champions of this cause under the most ludicrous necessity for explanation and self-defense. They have been obliged, like the Millerites, to postpone, over and over again, the date when the readjustment of values should be reached between East and West, after the "break of gauge," and when commerce and industry should

recover from the shock of demonetization. Even the predictions of the ablest and the most fair-minded, like Bagehot and Jevons, have been falsified in a high degree. But the monometallists have had something more to do than explain the failure of their predictions and to announce new dates for their promised millennium. Not only have they been driven by the stress of controversy to commit violence upon economic statistics and to write the most curious kind of economic history, but in their extremity they have actually found it necessary to revise political economy itself: for example, to repudiate a doctrine so well established through the general consent of economists as the quantity-theory of money and to declare that the value of money is not, like the value of everything else in the world, governed by the law of supply and demand. Verily, the way of the gold monometallist has been hard. A bimetallist, on the other hand, may well be proud to stand upon the same platform as in 1878; and, confining his substantive argument to practically the ground then occupied, make excursions into the history of the past eighteen years only for the purpose of obtaining fresh illustrations of the validity of the bimetallic principle and of the folly and the mischief of demonetization.

FRANCIS A. WALKER.

Massachusetts Institute of Technology, Boston.

AN EXPLANATION.

The editors of the Yale Review have no desire to institute a symposium on the subject of bimetallism, nor would anything be gained were I to undertake to answer all of the questions raised by Gen. Walker in his rejoinder. Such a debate might be carried on indefinitely without bringing the disputants any nearer together, and it seems to me that what is most to be desired is that economists who aim to be

impartial and scientific should do their best to agree, rather than by prolonged discussion to draw further apart. For these reasons I should prefer not to add anything to Gen. Walker's rejoinder. But inasmuch as he has shown that I misinterpreted a couple of sentences in his book, it is proper that I should apologize to him for so doing, and that I should revise my first criticism in the light of his own interpretation of his words. May I be permitted to re-state briefly the point in question.

In his book Gen. Walker calls it "monstrous and absurd" to attribute the recent fall in prices to an increase in the quantity of goods offered for sale and a cheapening of their cost of production, though he thinks it reasonable to hold that a part is due to these factors. He holds, on the contrary, that some part of this fall is due to an increase in the use of gold and a decline in the use of silver. In my review I aimed to refute this explanation by quoting Gen. Walker's own words, as that seemed to be the quickest and most conclusive way of disposing of the matter. It now seems that Gen. Walker did not intent to say that we "use more gold," but that we "use gold more," and I was in error in attributing that statement to him. The statement is, however, none the less true, and I do not understand that Gen. Walker intends to deny its truth in denying that he made it. But if true, this fact is certainly of primary importance in determining whether the low prices of many commodities are due to a scarcity of gold, resulting from the adoption of the gold standard by several leading states. I will state in a summary way the leading facts.

According to the estimates of the Treasury Department, the gold in our country increased between 1879 and 1895 from $245,000,000 to $636,000,000, and the standard silver dollars from $41,000,000 to $547,000,000. At the same time the paper issues increased so that the total currency rose from $1,000,000,000 to $2,300,000,000. Deducting the amount held by the treasury, the total amount in circulation rose from $818,000,000 to $1,600,000,000, or from $16.75 per capita to $22.93, and in 1892 it stood as high as $24.44 per capita. It might perhaps be supposed that we had increased our

gold and silver supply at the expense of the rest of the world and thus produced a scarcity of gold sufficient to account for the fall in prices indicated by the English statistics. But that is not the case. According to Prof. Lexis,[1] whom Gen. Walker calls "the first economic statistician of Germany, if not of the world," England imported between 1873 and 1892 about $190,000,000 more gold than she exported; Germany increased her holdings of the precious metals between the adoption of the gold standard and 1894 from $425,000,000 to $845,000,000, or nearly two-fold, while her population only increased from 40,000,000 to 50,000,000. France coined from 1874 to 1892 $203,000,000 of gold and imported some $400,000,000 more than she exported. Including silver, her metallic circulation increased during those years by at least $300,000,000, while her population remained stationary. These are a few of the details which I erroneously thought to find epitomized in Gen. Walker's short sentence about the increased use of gold in the world. But as it now appears that he did not intend to have his words taken in that sense, I am forced to the conclusion that he has failed to consider one of the most essential factors in the case. Indeed he himself says that his statement referred only to the demand for gold and not to any change in the supply. Now as a purely abstract proposition it is, of course, quite proper to state that an increase in the demand, *other things being equal*, would tend to increase the value of gold. But in the explanation of actual events, any one who tries to account for the increase in the value of gold without considering the supply, lays himself open, it seems to me, to the very charge which Gen. Walker brings against the monometallists of denying that the value of money is, "like the value of everything else in the world, governed by the law of *supply* and demand." I do not see therefore how, in view of the facts, any one can speak of a "relative scarcity" of gold, if he means a scarcity compared with the period before the so-called demonetization of silver. But if he means that gold has not increased as rapidly as commodities, this is, if I understand the matter, precisely what Mr. Wells implied

[1] Conrad's Jahrbücher, Nov. 1894.

when he demonstrated the enormous increase in the production and diminution in the cost of production of goods. And I am still forced to agree with Prof. Lexis, who said, writing in 1895: "The assertion that the low level of prices is a consequence of a scarcity of gold should at last cease, now that the facts contradict it in every particular."

HENRY W. FARNAM.

END OF
TITLE